



# ***CITY COUNCIL AGENDA REPORT***

---

**MEETING DATE:** April 6, 2021

**ITEM NUMBER:** NB-2

**SUBJECT:** PROPOSED PLAN FOR USE OF FEDERAL AMERICAN RESCUE PLAN FUNDS DUE TO THE CITY IN FISCAL YEAR 2020-2021 AND RELATED BUDGET ADJUSTMENTS

**DATE:** April 6, 2021

**FROM:** LORI ANN FARRELL HARRISON, CITY MANAGER  
CAROL MOLINA, FINANCE DIRECTOR

**FOR FURTHER INFORMATION CONTACT:** CAROL MOLINA, FINANCE DIRECTOR  
(714) 754-5243

---

## **RECOMMENDATION:**

The American Rescue Plan of 2021 passed by the United States Congress and signed into law by President Joe Biden on March 11, 2021, is a \$1.9 trillion economic stimulus bill providing for a wide variety of funding efforts to offset the economic losses resulting from the worldwide pandemic, COVID-19. The American Rescue Plan includes \$360 billion in direct funding to states, counties and cities to offset economic losses and increased expenses resulting from the pandemic.

1. Approve the proposed use of the City's first 50 percent allocation of \$14.2 million of the \$28.3 million American Rescue Plan multi-year allocation to Costa Mesa and authorize the budget appropriations accordingly (Attachment 1).
2. Authorize the City Manager, or her designee, to negotiate the elimination of the five percent (5%) pay furloughs prospectively with all employee associations and unrepresented groups, reimburse employees for the 5% paycuts incurred since July 1, 2020, and reinstate the personnel adopted budget accordingly. Revised Side Letters will be submitted to the City Council in a subsequent meeting for final approval upon final negotiation and ratification by the associations.

## **BACKGROUND:**

The worldwide coronavirus pandemic (COVID-19) is unprecedented in its size, scope and impact. With over 30 million people infected and 548,013 deaths in the United States as of March 16, 2021, the impact of this infectious and potentially deadly disease is unmatched. The increase in COVID-19 cases in November and December of 2020 led to renewed measures to control the virus, including additional restrictions imposed. Additionally, the impact of COVID-19 on the global economy continues and has impacted over 10 million Americans resulting in an unemployment rate of 6.2 percent.

A second Regional Stay at Home Order was issued in California on December 3, 2020, triggered by regions having less than 15 percent Intensive Care Unit (ICU) capacity. All

Southern California regions were affected by the Stay At Home Order, including areas that fell to zero percent capacity, including Orange County. This Order was lifted on January 25, 2021 as projected ICU availability over four weeks in all regions rose to over 15 percent, triggering the State to announce the return to a color-tiered system of county-by-county restrictions. As of March 14, 2021, Orange County moved into the Red Tier, allowing for partial re-openings of certain businesses.

Last year, on March 27, 2020, the U.S. Congress passed the CARES Act which allotted \$2.2 trillion to provide fast and direct economic aid across the country. However, the funding was restricted to certain emergency expenditures, and only provided direct allocations to governmental entities with populations over 500,000. As a result, municipalities under the 500,000 threshold had to coordinate with and lobby State and County governments to receive a share of the CARES Act funding.

Approximately a year later, on March 11, 2021, the American Relief Plan signed by President Biden included a \$1.9 trillion Economic Relief Plan that contains \$360 billion in direct aid to state, local, territorial, and Tribal governments. Of this amount, local governments including both counties and municipalities were provided \$130 billion in emergency funding. The State and Local Fiscal Recovery Fund was designed to assist with the budget gaps created by the crisis and its economic shutdowns.

In the recently approved American Relief Plan, the allocations for entities over 50,000 in population will be receiving funding based on the Federal CDBG (Community Development Block Grant) allocation methodology. Based on the CDBG methodology, the City of Costa Mesa is estimated to receive \$28.3 million; half of that amount within 60 days of the Bill's passage and the balance in 12 months, in Fiscal Year 2021-22. As of today, the U.S. Treasury Department is still finalizing the procedures and processes to claim the funding and the reporting requirements. Although the bill specifically allows for the recovery of revenue losses and the reduction of expenditures governments incurred to address the pandemic, the bill is very clear that pension costs are not eligible.

To address fiscal challenges resulting from COVID-19 in the last quarter of FY 2019-20, the City immediately implemented cost containment measures and developed a multi-faceted approach to address the estimated deficit due to the reduction of revenues, including but not limited to sales tax, transient occupancy tax (hotel tax), fees and fines. City staff identified \$6.0 million in capital project deferrals, reduced non-essential expenditures, such as training, captured vacancy savings and implemented multiple other cost containment strategies. As a result, the FY 2019-20 audited financial statements resulted in a balanced, albeit small positive year-end result of approximately \$170,000, without the use of reserves.

Moreover, the current FY 2020-21 Adopted Budget utilized a multifaceted approach to address the projected revenue shortfall due to the fiscal impacts of the pandemic, and was adopted by the City Council on June 9, 2020, for the fiscal year beginning July 1, 2020. The expenditure reductions included, but were not limited to, negotiated across-the-board five percent (5%) employee pay furloughs, the continued \$6.0 million of capital project deferrals, waiving the five percent CAN (Capital Assets Needs) allocation in the City's infrastructure for one year, 54 part time employee layoffs, defunding multiple part time and full time positions, reducing departments' operating budgets, and drawing down an estimated \$4 million from the Declared Disasters Reserves to ensure public services could still be provided during the pandemic.

## **ANALYSIS:**

As stated above, the American Rescue Plan includes economic relief to local, state and tribal governments that have experienced a significant revenue loss and/or increased expenditures resulting from this pandemic. The City of Costa Mesa is estimated to receive \$28.3 million from the Treasury Department over the next two fiscal years. It is anticipated the first half, approximately \$14.2 million will be available to the City within sixty days of certification from the United States Treasury Department, and the remaining balance in twelve months, in the FY 2021-22 budget.

The use of these funds is more flexible than the previous CARES Act funding to cover expenditures related to the pandemic. Expenditure reductions due to revenue losses incurred due to the pandemic are eligible expenses, as long as they do not cover pension costs. Therefore, staff is requesting the restoration of cuts made to departments' budgets resulting from the revenue losses created by the pandemic (\$0.4 million), to eliminate the current deficit in the Disaster Fund which contains additional City costs incurred to address the pandemic and the Small Business Bridge Grant (\$4.5 million), reallocate funding towards capital projects that were deferred due to the economic impacts of the pandemic (\$2.4 million), realign the use of fund balance (\$4.0 million), and the full restoration of employee compensation to pre-furlough amounts (\$2.8 million), for the \$14.2 million in American Rescue Funds anticipated in the current fiscal year.

**Table 1**

Description	Amount
Address the Disaster Fund Deficit	2,500,000
Reimburse GF Reserves for the Small Business Bridge Grant	2,000,000
Eliminate 5% Employee Furloughs: April to June 2021 Estimate*	707,925
Reimburse Employee Paycuts: July 2020 to March 2021*	2,123,774
Restore FY 20/21 funding of planned use of GF Emergency Reserves	4,000,000
Fully restore the FY 20/21 CAN: rescind the waiver request	1,400,000
Apply 6.5% CAN to \$14.2 million of the American Rescue Plan Funds	1,000,000
Restore departmental budget reductions:	
Landscaping, streets, and overtime	435,497
<b>GRAND TOTAL</b>	<b>14,167,196</b>
* These items are subject to negotiations.	

Due to the ongoing fiscal impacts of the pandemic, and the fact that the funds can be used for increased expenditures and revenue losses through December 31, 2024, it is prudent for the City to strategize on the best use of these Federal funds over a multi-year period. This staff reports addresses the proposed use of the first phase of funding to make the City whole for the cuts taken and the additional costs incurred up to this point.

## **GENERAL FUND**

### ***Revenues***

The American Rescue Plan is the first piece of legislation that allows for Federal funding to backfill the loss of revenues due to the pandemic. The revenue loss calculation accepted is the difference of the revenues received in the fiscal year prior to the pandemic versus the fiscal years impacted by the pandemic. For Costa Mesa, FY 2018/19 will be compared against the subsequent fiscal years (Table 2). Based on this methodology, the City

experienced significant revenue losses in sales tax, transient occupancy tax (hotel tax), parks and recreational fees, and fines and forfeitures.

**Table 2**

General Fund - Revenues Impacted by COVID (in millions)					
Category	Actuals FY 2018/19	Actuals FY 2019/20	FY 18/19 vs. FY 19/20	Amended FY 2020/21	FY 18/19 vs. FY 20/21
Sales Tax*	62.9	55.9	(7.0)	54.3	(8.6)
Transient Occupancy Tax	8.6	6.6	(2.0)	3.9	(4.7)
Fines and Forfeitures	1.9	1.4	(0.5)	1.3	(0.5)
Parks and Recreation	2.0	1.3	(0.7)	1.0	(1.0)
<b>Subtotal Revenues</b>	<b>75.3</b>	<b>65.1</b>	<b>(10.2)</b>	<b>60.6</b>	<b>(14.7)</b>
Other Revenues	68.5	72.5	4.0	73.8	5.3
<b>Total Revenues</b>	<b>143.8</b>	<b>137.6</b>	<b>(6.2)</b>	<b>134.4</b>	<b>(9.4)</b>

\*Note: FY 2018/19, City received \$2.0 million in one-time sales tax from prior years adjustment

### **Expenditures**

The American Rescue Plan allows for cities to be made whole for cuts they had to take in due to the pandemic. The Adopted General Fund Budget for FY 2020-21 reflects total expenditures of \$136.6 million. This amount represents a decrease of \$5.5 million from the prior fiscal year adopted budget of \$142.2 million.

During the budget preparation process of FY 2020-21, Council approved a multi-faceted approach to reduce the General Fund expenditures to offset the estimated revenue loss. In an effort to address the estimated budget shortfall, City departments reduced operating budgets, cut overtime, defunded positions, transferred eligible expenses to other funds, and reduced capital improvement projects totaling \$10.8 million in solutions.

### **COVID-19 DISASTER FUND**

#### **Address Disaster Fund Deficit**

In March 2020, the City of Costa Mesa proclaimed a local emergency due to the COVID-19 pandemic. Upon the declaration of the local emergency, City staff created and implemented the Disaster Fund to properly account for and track all reimbursements and expenditures related to the coronavirus pandemic. This included proper documentation protocols, submissions to FEMA for reimbursement, the tracking of CARES Act funding for Costa Mesa received via the State and County and the Council approved use of \$2.0 million from General Fund reserves for the Small Business Bridge Grant Program in December 2020. To date, the Disaster Fund, excluding the Small Business Bridge Grant and reimbursable expenses related to homeless and ambulance services, contains expenditures of \$4.9 million, and has received \$2.4 million in CARES Act funding, thereby resulting in a deficit of \$2.5 million. To date the City has received zero dollars from FEMA.

#### **Reimburse General Fund Reserves for the Small Business Bridge Grant**

City Council authority is requested to restore the General Fund reserves in the amount of \$2.0 million used for the Small Business Bridge Grant as approved by the City Council in December 2020. The American Rescue Plan allows for the restoration of the use of General Fund reserves incurred by governments. Additionally, the Plan provides emergency grants, lending, and investments to hard-hit small businesses so they can rehire and retain workers. This includes a Small Business Opportunity Fund to provide growth capital to main street

small businesses in economically disadvantaged areas, including minority-owned businesses. Staff is reviewing the various funding opportunities within the Plan that the City can apply for to cover all the expenditures incurred due to the pandemic, including the Small Business Bridge Grant Program.

## **STAFF FURLOUGHS**

The General Fund Budget for Fiscal Year 2020-21 reflects a multi-faceted approach to address the revenue reductions including cuts of \$10.8 million across departments citywide, defunded 13.75 full time and 3.7 part time vacant positions citywide for all or a portion of the fiscal year, reductions in certain non-essential services, and a five percent (5%) pay furlough or equivalent for all employee groups.

### ***Eliminate Staff Furloughs and Reimburse Pay cuts***

At the June 25, 2020 and July 21, 2020 City Council meetings, Side Letter Agreements were approved to achieve a five percent (5%) furlough. The Side Letter Agreements included language stating that a one-time payment would be made by the City to the employees equivalent to the pay cuts taken should the City receive Federal stimulus funds in excess of \$40.5 million. To date, the City of Costa Mesa has received CARES Act funding from the State of \$1.4 million and the County of Orange of \$1.0 million totaling \$2.4 million, and finally, the recently approved American Rescue Plan allocating \$28.3 million to the City of Costa Mesa. Between CARES Act and the American Rescue Plan, the City is expected to receive an estimated amount of \$30.7 million. Pro-rated to the nine months into the current fiscal year, the stimulus funding equates to an estimated \$30.4 million. As a result, staff is requesting to end the five percent (5%) furloughs and provide staff with the one-time reimbursement for the pay cuts implemented since July 1, 2020 this fiscal year.

Further, staff will reinstitute a 9/80 schedule that will open City Hall every other Friday. Currently, due to the staff furloughs, City Hall is closed every Friday. This reinstatement of a 9/80 schedule will provide additional productivity and enhance staff's ability to manage the current workload.

City Council authorization is requested to authorize the City Manager, or her designee, to enter into side letter negotiations for the sole purpose of eliminating the five (5%) percent furlough across all labor groups for an estimated impact of \$0.8 million for the period of April through June 2021, and for the one-time reimbursement to employees of the salary cuts already incurred from July 1, 2020 through March 31, 2021 estimated at \$2.4 million, for a total of \$3.2 million. The estimated fiscal impact of ending the staff pay cuts by labor group is outlined in Attachment 2. A sample of the side letter language necessary to effectuate this sole change in the existing Side Letter Agreements is contained in Attachment 3.

## **FY 2020-21 PLANNED USE OF GENERAL FUND EMERGENCY RESERVES**

The FY 2020-21 General Fund Adopted Budget includes the approved use of General Fund Emergency Reserves to assist with the estimated loss of revenues resulting from the pandemic. The estimated \$10 million in use of fund balance is comprised of \$6 million from capital projects set aside in FY 2019/20, and \$4 million from the emergency reserves. Staff recommends utilizing the \$14.2 million of the American Rescue Plan allocation instead.

## **RESTORE THE CAPITAL ASSET NEEDS FUNDING**

### ***Rescind the CAN Waiver Request for FY 2020/21***

There is a need to continue to fund the City's aging infrastructure. As a result, staff is requesting to rescind the City Council waiver of the 5% of the annual General Fund revenue requirement to the capital assets account as per the CAN requirement. An appropriation adjustment transfer of \$1.4 million from the General Fund to the Capital Fund will fully satisfy the CAN requirement for FY 2020-21.

### ***Apply 6.5% of the CAN to the FY 2020/21 American Rescue Plan Funds***

Staff is recommending to set aside 6.5% of American Rescue Plan Fund of \$14.2 million towards the CAN (5% to capital and 1.5% towards technology) of \$1.0 million.

The transfer of these capital funds will assist in funding much needed capital projects throughout the City and will keep the City from falling too far behind in its investments in infrastructure as required through the CAN. Staff recommends City Council further deliberate regarding the use of these funds during the FY 2021/2022 Proposed Budget process in May and June 2021. Detailed reporting requirements and approved use of funding outside of the reductions taken are still pending the US Department of Treasury. As such, it is recommended to strategize the most efficient and approved use of the funds upon the final policies and procedures from the US Treasury Department for the second 50 percent allocation. Finally, the American Rescue Plan provides additional funding outside of the direct allocations to cities, to cover other City expenses, such as infrastructure for \$10 billion, and small business grants funding.

## **RESTORE DEPARTMENTAL BUDGET REDUCTIONS**

### ***Landscaping, Streets, and Overtime***

In order to balance the FY 2020/21 General Fund Adopted Budget, departments reduced operating costs by \$10.2 million. A slight portion amount, \$435,497 is being requested towards landscaping, street and overtime efforts to assist in enhancing City services and improving streets and public areas.

### **ALTERNATIVES CONSIDERED:**

Do not approve the recommended action(s) and direct staff accordingly.

### **FISCAL REVIEW:**

The City of Costa Mesa has been allocated \$28.3 million from the 2021 American Rescue Plan. Within 60 days, the City is expected to receive \$14.2 million, or 50% of the \$28.3 million allotment. The balance of the funds, \$14.2 million, is anticipated to be received in twelve months and can be expended through December 2024.

### **LEGAL REVIEW:**

The City Attorney has reviewed and approved this report as to form.

---

## **CITY COUNCIL GOALS AND PRIORITIES**

This item supports the following multiple City Council goals: 1) recruit and retain high quality staff, 2) achieve long-term fiscal sustainability, and 3) strengthen public safety and keep the community safe.

### **CONCLUSION:**

The first 50 percent allotment of the 2021 American Rescue Plan funds provides for sufficient funding to restore cuts to the budget that were required to address the projected deficit resulting from the pandemic, and to pay for increased costs incurred to address COVID-19. It is recommended that discussions regarding the use of the remaining 50 percent allocation occur within the context of the development of the FY 2021-22 Proposed Budget during May and June 2021, and in concert with the discussion of the City's Five Year Financial Plan.

---

CAROL MOLINA  
Finance Director

---

LORI ANN FARRELL HARRISON  
City Manager

---

KIMBERLY HALL BARLOW  
City Attorney

#### Attachments:

1. [2021 American Rescue Plan](#)
2. [FY 2020-21 Staff Furloughs by Labor Unit](#)
3. [Sample Side Letter](#)